

**REPORT OF THE AUIT OF THE  
SCOTT COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE SCOTT COUNTY FISCAL COURT**

**June 30, 2007**

The Auditor of Public Accounts has completed the audit of the Scott County Fiscal Court for fiscal year ended June 30, 2007.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Scott County, Kentucky.

#### **Financial Condition:**

The Fiscal Court had net assets of \$66,265,035 as of June 30, 2007. The Fiscal Court had unrestricted net assets of \$24,348,057 in its governmental activities as of June 30, 2007, with total net assets of \$66,252,269. In its business-type activities, total net cash and cash equivalents were \$12,766 with total net assets of \$12,766. The Fiscal Court had total debt principal as of June 30, 2007 of \$1,245,000 with \$395,000 due within the next year.

#### **Report Comment:**

- Scott County Has A Lack Of An Adequate Segregation Of Duties

#### **Deposits:**

The Fiscal Court had \$41,562 in deposits that were uninsured and uncollateralized by bank securities or bonds as of August 31, 2006. The Fiscal Court had \$111,140 in deposits that were uninsured and uncollateralized by bank securities or bonds as of June 30, 2007.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Scott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Scott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Members of the Scott County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Scott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2008, on our consideration of Scott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Scott County Has A Lack Of An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 30, 2008



SCOTT COUNTY OFFICIALS

For The Year Ended June 30, 2007

**Fiscal Court Members:**

George Lusby	County Judge/Executive
Patsy Rich	Magistrate
Gary Allen Perry	Magistrate
Stewart Hughes	Magistrate
Bobby Rankin	Magistrate
John T. Hoffman	Magistrate
Tom Prather	Magistrate
Chuck Tackett	Magistrate

**Other Elected Officials:**

Glenn Williams	County Attorney
Larry Covington	Jailer
Jackie Covington	County Clerk
Karen Boehm	Circuit Court Clerk
Bobby Hammons	Sheriff
Jane Rankin	Property Valuation Administrator
John Goble	Coroner

**Appointed Personnel:**

Jane L. Abner	County Treasurer
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Court House  
Built 1877

## George Lusby

Scott County Judge/Executive  
P.O. Box 973  
Court House, Main Street  
Georgetown, Kentucky 40324

Telephone  
(502) 863-7850  
Fax  
(502) 863-7852

### Management's Discussion and Analysis June 30, 2007

The financial management of Scott County, Kentucky offers readers of Scott County's financial statements this narrative overview and analysis of the financial activities of Scott County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

#### Financial Highlights

- The fiscal year ending June 30, 2007 was the first year in more than 15 years to have more expenses than income in the General Fund. The difference was \$283,242. The decrease can be attributed to three factors:
  1. Net profits were down from \$6,621,972 to \$5,559,902, for a decrease of \$1,062,070. This was the second year in a row that net profits were less and is a trend that must be carefully watched.
  2. A second factor in the decrease was the failure of the City to reimburse the County for several joint agency programs by the end of the fiscal year. The amount was in excess of \$400,000. The City ultimately paid this in August 2007, and it will be reported in the 2008 budget year. Policies are being implemented to avoid this in future years.
  3. The third factor was the over expenditure in salaries for code 01-5120-121, firefighters' salaries. The original budget was \$1,252,000, with actual expenditures of \$1,631,430, for a difference of \$379,430. In addition to this, required benefits in the amount of 35%, or \$132,800, were added. This overage was discovered in February 2007, and measures were implemented to control the overage from that point.
- On the income side, several positive trends were noted. Payroll taxes were up from \$10,721,482 to \$11,030,272, for an increase of \$308,790. Interest on certificates of deposit increased from \$606,359 to \$957,108 over the previous year, resulting in a net increase of \$350,749.
- It should be noted, however, that the total General Fund revenue was down from \$29,075,172 in 2006 to 26,734,045, for a difference of \$2,341,127. The 2007 income was also down from 2005 figures. In 2005, the General Fund income was \$26,833,301, resulting in \$99,256 less than that year. Thus, 2007 income was less than the previous two years.

### **Financial Highlights (Continued)**

- As we move into the new fiscal year, several projects, along with rising health and retirement costs, could cause the County to dig deep into carryover money. The projects include payment for two new fire trucks, completion of the Sadieville Emergency Service building, and development of the park at great crossings, including a new road to connect Highway 227 with the Bypass. The reservoir project is still ongoing as we wait for approval from the Federal Government. The park and reservoir will require bond funding for a part of the overall cost. A final, and perhaps bigger, concern for the County government is the increase of employees, especially in the emergency service fields. The cost of salaries plus the escalating rise in benefits have become major issues, not just with Scott County, but also in cities and counties all across Kentucky. The cost has more than tripled in the past five years, and forecasts indicate they will continue this rapid rise well into future years.
- The bright spot in the County government is the steady increase in revenue due to increased value to the property tax rolls and the addition of new businesses. In addition, the County has not acquired any new debt. At this point in time, the County is in a very favorable financial position.

### **Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Scott County's basic financial statements. Scott County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Scott County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Scott County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Scott County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

## Overview of the Financial Statements (Continued)

### Government-wide Financial Statements (Continued)

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Scott County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The county has one business type activity - the operation of a jail canteen.

The government-wide financial statements include not only Scott County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the county. Scott County has one such entity, the Public Properties Corporation. It is known as a blended component unit.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Scott County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Scott County can be divided into three broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Scott County Fiscal Court  
Management Discussion and Analysis  
June 30, 2007  
(Continued)

### Governmental Funds (Continued)

Scott County maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, and Public Properties Corporation Fund, all of which are considered major funds by the County. The Local Government Economic Assistance Fund, McCracken fund, and Hospital Fund, are considered non-major funds and are represented in a combined form.

Scott County adopts an annual appropriated budget for its major governmental funds except for the Public Properties Corporation Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Proprietary Funds.** Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

**Fiduciary Fund.** Scott County has one fiduciary fund. The Jail Inmate Fund is used to account for monies held by the County for a custodial purpose only.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Government-wide Financial Analysis.

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1**  
**Scott County's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
<b>Assets</b>						
Current and other assets	\$ 24,745,606	\$ 24,435,222	\$ 13,069	\$ 12,766	\$ 24,758,675	\$ 24,447,988
Capital assets	41,312,801	43,062,047			41,312,801	43,062,047
Total Assets	66,058,407	67,497,269	13,069	12,766	66,071,476	67,510,035
<b>Liabilities</b>						
Current and other liabilities	380,000	395,000			380,000	395,000
Long-term liabilities	1,245,000	850,000			1,245,000	850,000
Total Liabilities	1,625,000	1,245,000			1,625,000	1,245,000
<b>Net Assets</b>						
Invested in capital assets, net of related debt	39,687,801	41,817,047			39,687,801	41,817,047
Restricted For:						
Nonexpendable	83,422	84,524			83,422	84,524
Expendable	1,122	2,631			1,122	2,631
Unrestricted	24,661,062	24,348,057	13,069	12,766	24,674,131	24,360,823
Prior Period Adjustment	1,703,699				1,703,699	
Total Net Assets	\$ 66,137,106	\$ 66,252,269	\$ 13,069	\$ 12,766	\$ 66,150,175	\$ 66,265,035

Scott County Fiscal Court  
Management Discussion and Analysis  
June 30, 2007  
(Continued)

**Government-wide Financial Analysis (Continued)**

**Table 2**

	Governmental Activities		Percent Change
	2006	2007	
<b>Revenues:</b>			
General Revenue	\$ 25,275,544	\$ 24,994,780	-1%
Charges For Services	1,282,882	1,296,444	1%
Operating Grants and Contributions	3,902,738	2,160,132	-44%
Capital Grants and Contributions	500,000		-100%
Total Revenues	<u>30,961,164</u>	<u>28,451,356</u>	-8%
<b>Expenses:</b>			
General Government	10,330,740	11,569,273	12%
Protection to Persons and Property	6,907,647	8,876,742	29%
General Health and Sanitation	722,989	707,987	-2%
Social Services	478,346	472,839	-1%
Recreation and Culture	1,950,588	2,699,302	38%
Roads	2,248,369	2,194,696	-2%
Interest on Long-Term Debt	94,080	106,387	13%
Capital Projects	2,881,301	1,708,967	-41%
Total Expenses	<u>\$ 25,614,060</u>	<u>\$ 28,336,193</u>	11%

**Changes in Net Assets.**

*Governmental Activities.* Scott County's net assets increased by \$115,163 in fiscal year 2007. Key elements of this are as follows:

- Current assets and cash decreased \$310,384.
- Investment in capital assets, net of related debt increased \$2,129,246.
- Current and long-term liabilities decreased by \$380,000.
- Revenues were \$28,451,356 as reflected in the Statement of Activities.
- Expenditures totaled \$28,336,193 as reflected in the Statement of Activities.

*Business-type Activities.* Scott County's net assets decreased by \$303 in fiscal year 2007. Key elements of this are as follows:

- Current assets and cash decreased by \$303.

**Financial Analysis of the County's Funds.**

As noted earlier, Scott County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Financial Analysis of the County's Funds (Continued)**

*Governmental Funds Overview.* The focus of Scott County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2007 fiscal year, the combined ending fund balance of Scott County's governmental funds was \$24,435,222. Approximately 99% (\$24,350,688) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$84,534) is reserved to indicate that it is not available for new spending because it is committed.

The County has 7 governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; 5) Hospital Fund; 6) McCracken Trust Fund 7) Public Properties Corporation Fund.

1. The General Fund is the chief operating fund of Scott County. At the end of the June 30, 2007 fiscal year, the total fund balance of the General Fund of \$23,637,189 was unreserved. The County received \$11,030,272 in Occupational Tax revenues and \$5,559,902 in Net Profit Tax revenues. This accounts for approximately 62% of the General Fund revenue. \$1,734,517 was received from real and personal property taxes and accounts for approximately 6.5% of the County's General Fund revenue.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund collected \$1,096,706 in revenue and received \$1,800,000 from the General Fund. The Road Fund had a prior year surplus carry over amount of \$106,050, for a total operating amount of \$3,002,756. There were expenses of \$2,826,525 leaving a year-end balance of \$176,231. The largest expenses in this fund were for road and bridge maintenance and salaries with each over \$1,000,000.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund received \$432,635 in revenue generated from its operations and \$1,800,000 was transferred in from the General Fund. The Jail Fund had a prior year surplus carry over amount of \$81,203 for a total operating amount of \$2,313,838. There were expenses of \$2,226,577 and a transfer to the Public Properties Corporation of \$67,662 leaving a year-end balance of \$19,599.
4. The Local Government Economic Assistance Fund received \$169,432 during the fiscal year and had a prior year surplus carry over balance of \$159,181. There were expenses of \$196,819, leaving a year-end balance of \$131,794. Money in this fund is used to pay for road improvements.
5. The Hospital Fund revenue is generated from Certificates of Deposits from the sale of the old hospital. Interest from the funds is used for medicine for those without the ability to pay. Total money generated from interest this year was \$15,190 and there was a carryover of \$394,195 for a total of \$409,385. Expenses totaled \$26,153 leaving a carryover for the new year of \$383,232. This includes the amount of \$378,000 invested in the Certificates of Deposit that is earmarked only for generating income for the fund.

**Financial Analysis of the County's Funds. (Continued)**

6. The McCracken Trust Fund is used to pay for care for the indigent. The money in this fund is generated from a trust fund and only the interest can be spent, with one-third of the money going back into the trust fund. This fund received \$3,337 in interest and had a carryover of \$84,544, for a total of \$87,881. Expenses totaled \$716, leaving a carryover balance of \$87,165.
7. The Public Properties Corporation Fund is used to pay the debt service payments for the Series 1997 Refunding Issue. Transfers are made from the General Fund and the Jail Fund to the Public Properties Corporation Fund for the payments to then be made by the third party trustee.

*Proprietary Funds Overview.* The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, in more detail.

Scott County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$12,766 as of June 30, 2007 and a cash balance of \$12,766.

**General Fund Budgetary Highlights.**

Actual operating revenues were \$7,750,645 more than amount originally budgeted by Fiscal Court. This increase was primarily from Intergovernmental sources and tax revenues.

Actual operating expenditures were \$5,405,574 less than amount originally budgeted by Fiscal Court.

**Capital Assets and Debt Administration.**

*Capital Assets.* Scott County's investment in capital assets for its government and business type activities as of June 30, 2007, amounts to \$43,062,047 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. The County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2007 fiscal year included the purchase of the Taylor property, completion of two new bridges, addition of sleeping quarters for two of the fire stations, purchase of an ambulance and fire truck, and the purchase of a building for the EMS station. Additional information on the County's capital assets can be found in Note 3 of this report.



Scott County Fiscal Court  
Management Discussion and Analysis  
June 30, 2007  
(Continued)

**Capital Assets and Debt Administration (Continued)**

**Table 3**  
**Scott County's Capital Assets, Net of Accumulated Depreciation**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Infrastructure Assets	\$ 12,898,156	\$ 13,279,913			\$ 12,898,156	\$ 13,279,913
Land	6,706,712	6,706,712			6,706,712	6,706,712
Buildings and Improvements	16,739,071	17,927,134			16,739,071	17,927,134
Other Equipment	2,310,840	2,308,834			2,310,840	2,308,834
Vehicles and Equipment	2,658,022	2,839,454			2,658,022	2,839,454
Prior Period Adjustment	1,703,699				1,703,699	
Total Net Capital Assets	<u>\$ 43,016,500</u>	<u>\$ 43,062,047</u>	<u>\$</u>	<u>\$</u>	<u>\$ 43,016,500</u>	<u>\$ 43,062,047</u>

*Long-Term Debt.* At the end of the 2007 fiscal year, Scott County had total long-term debt principal outstanding of \$1,245,000. The amount of this debt due within the next year is \$395,000 and \$850,000 is due in subsequent years. This debt is described in note 4 of this report.

**Requests For Information**

This financial report is designed to provide a general overview of Scott County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Scott County Treasurer, PO Box 973, Georgetown, KY 40324.

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**SCOTT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**



**SCOTT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 24,435,222	\$ 12,766	\$ 24,447,988
Total Current Assets	24,435,222	12,766	24,447,988
Noncurrent Assets:			
Capital Assets - Net of			
Accumulated Depreciation			
Land and Land Improvements	6,706,712		6,706,712
Buildings	17,927,134		17,927,134
Other Equipment	2,308,834		2,308,834
Vehicles and Equipment	2,839,454		2,839,454
Infrastructure	13,279,913		13,279,913
Total Noncurrent Assets	43,062,047		43,062,047
Total Assets	67,497,269	12,766	67,510,035
<b>LIABILITIES</b>			
Current Liabilities:			
Revenue Bonds Payable	395,000		395,000
Total Current Liabilities	395,000		395,000
Noncurrent Liabilities:			
Revenue Bonds Payable	850,000		850,000
Total Noncurrent Liabilities	850,000		850,000
Total Liabilities	1,245,000		1,245,000
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	41,817,047		41,817,047
Restricted For:			
Indigent Care-Nonexpendable	84,534		84,534
Indigent Care-Expendable	2,631		2,631
Unrestricted	24,348,057	12,766	24,360,823
Total Net Assets	\$ 66,252,269	\$ 12,766	\$ 66,265,035

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**

**SCOTT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 11,569,273	\$ 432,677	\$ 388,937	\$
Protection to Persons and Property	8,876,742	751,880	483,770	
General Health and Sanitation	707,987	111,887		
Social Services	472,839			
Recreation and Culture	2,699,302			
Roads	2,194,696		1,237,180	
Interest on Long-Term Debt	106,387			
Capital Projects	1,708,967		50,245	
Total Governmental Activities	28,336,193	1,296,444	2,160,132	
Business-type Activities:				
Jail Canteen	39,270	38,580	387	
Total Business-type Activities	39,270	38,580	387	
Total Primary Government	\$ 28,375,463	\$ 1,335,024	\$ 2,160,519	\$ 0

**General Revenues:**

Taxes:  
    Real Property Taxes  
    Personal Property Taxes  
    Motor Vehicle Taxes  
    Occupational Tax/Net Profit Tax  
Excess Fees  
Miscellaneous Revenues  
Accrued Interest Received  
  
Total General Revenues  
Change in Net Assets  
Net Assets - Beginning (Restated)  
  
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**SCOTT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (10,747,659)	\$	\$ (10,747,659)
(7,641,092)		(7,641,092)
(596,100)		(596,100)
(472,839)		(472,839)
(2,699,302)		(2,699,302)
(957,516)		(957,516)
(106,387)		(106,387)
(1,658,722)		(1,658,722)
(24,879,617)		(24,879,617)
	(303)	(303)
	(303)	(303)
(24,879,617)	(303)	(24,879,920)
1,696,244		1,696,244
38,273		38,273
438,043		438,043
17,300,016		17,300,016
1,900,119		1,900,119
2,621,549		2,621,549
1,000,536		1,000,536
24,994,780		24,994,780
115,163	(303)	114,860
66,137,106	13,069	66,150,175
\$ 66,252,269	\$ 12,766	\$ 66,265,035

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**

**SCOTT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 23,637,189	\$ 176,231	\$ 19,599	\$ 12
Total Assets	<u>\$ 23,637,189</u>	<u>\$ 176,231</u>	<u>\$ 19,599</u>	<u>\$ 12</u>
<b>FUND BALANCES</b>				
Reserved for:				
Permanent Care-Indigent Care	\$	\$	\$	\$
Unreserved:				
General Fund	23,637,189			
Special Revenue Funds		176,231	19,599	
Debt Service Fund				12
Permanent Fund				
Total Fund Balances	<u>\$ 23,637,189</u>	<u>\$ 176,231</u>	<u>\$ 19,599</u>	<u>\$ 12</u>

The accompanying notes are an integral part of the financial statements.

**SCOTT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2007**  
**(Continued)**

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 602,191	\$ 24,435,222
<u>\$ 602,191</u>	<u>\$ 24,435,222</u>
\$ 84,534	\$ 84,534
	23,637,189
515,026	710,856
	12
<u>2,631</u>	<u>2,631</u>
<u>\$ 602,191</u>	<u>\$ 24,435,222</u>

**Reconciliation to Statement of Net Assets:**

Total Fund Balances	\$ 24,435,222
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	62,095,013
Accumulated Depreciation	(19,032,966)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Bonds	<u>(1,245,000)</u>
Net Assets Of Governmental Activities	<u>\$ 66,252,269</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**SCOTT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>
<b>REVENUES</b>				
Taxes	\$ 19,393,991	\$	\$	\$
Excess Fees	913,216			
Licenses and Permits	404,626			
Intergovernmental	1,916,020	1,069,389	367,512	
Charges for Services	601,230		40,854	
Miscellaneous	2,528,493	23,426	24,269	
Interest	976,469	3,891		12
Total Revenues	<u>26,734,045</u>	<u>1,096,706</u>	<u>432,635</u>	<u>12</u>
<b>EXPENDITURES</b>				
General Government	5,507,738			
Protection to Persons and Property	6,652,565		1,560,062	
General Health and Sanitation	682,074			
Social Services	445,970			
Recreation and Culture	2,628,163			
Roads		2,266,809		
Debt Service				486,387
Capital Projects	1,699,950	9,017		
Administration	5,382,102	550,699	666,515	
Total Expenditures	<u>22,998,562</u>	<u>2,826,525</u>	<u>2,226,577</u>	<u>486,387</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,735,483</u>	<u>(1,729,819)</u>	<u>(1,793,942)</u>	<u>(486,375)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds		1,800,000	1,800,000	486,387
Transfers To Other Funds	(4,018,725)		(67,662)	
Total Other Financing Sources (Uses)	<u>(4,018,725)</u>	<u>1,800,000</u>	<u>1,732,338</u>	<u>486,387</u>
Net Change in Fund Balances	(283,242)	70,181	(61,604)	12
Fund Balances - Beginning	23,920,431	106,050	81,203	
Fund Balances - Ending	<u>\$ 23,637,189</u>	<u>\$ 176,231</u>	<u>\$ 19,599</u>	<u>\$ 12</u>

The accompanying notes are an integral part of the financial statements.



**SCOTT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 19,393,991
	913,216
	404,626
	3,352,921
	642,084
167,791	2,743,979
20,166	1,000,538
<u>187,957</u>	<u>28,451,355</u>
	5,507,738
	8,212,627
	682,074
26,869	472,839
	2,628,163
196,819	2,463,628
	486,387
	1,708,967
	6,599,316
<u>223,688</u>	<u>28,761,739</u>
<u>(35,731)</u>	<u>(310,384)</u>
	4,086,387
	<u>(4,086,387)</u>
(35,731)	(310,384)
637,922	24,745,606
<u>\$ 602,191</u>	<u>\$ 24,435,222</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**SCOTT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$ (310,384)
--	--------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,153,020
Depreciation Expense	(2,053,877)
Disposed of, Net Book Value	(53,596)

Debt Proceeds Provide Current Financial Resources To Governmental Funds While Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.

Bond Payments	380,000
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Change in Net Assets of Governmental Activities	\$ 115,163
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The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2007**





**SCOTT COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2007**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 12,766
Total Assets	<u>12,766</u>
<b>Net Assets</b>	
Unrestricted	12,766
Total Net Assets	<u><u>\$ 12,766</u></u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**SCOTT COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 14,474
Miscellaneous	24,106
Total Operating Revenues	<u>38,580</u>
<b>Operating Expenses</b>	
Educational and Recreational	7,544
Personnel Costs	3,398
Miscellaneous	28,328
Total Operating Expenses	<u>39,270</u>
Operating Income (Loss)	<u>(690)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Inmate Pay From State	<u>387</u>
Total Nonoperating Revenues (Expenses)	<u>387</u>
Change In Net Assets	(303)
Total Net Assets - Beginning	<u>13,069</u>
Total Net Assets - Ending	<u><u>\$ 12,766</u></u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**





**SCOTT COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 14,474
Miscellaneous Revenue	24,106
Educational and Recreational	(7,544)
Personnel Costs	(3,398)
Miscellaneous Expense	(28,328)
Net Cash Provided By Operating Activities	(690)
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	387
Net Cash Provided By Noncapital Financing Activities	387
Net Increase in Cash and Cash Equivalents	(303)
Cash and Cash Equivalents - July 1, 2006	13,069
Cash and Cash Equivalents - June 30, 2007	\$ 12,766
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ (690)
Net Cash Provided By Operating Activities	\$ (690)

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS**

**June 30, 2007**



**SCOTT COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS**

**June 30, 2007**

	<u><b>Agency Fund</b></u>
	<u><b>Jail Inmate Account</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	<u>\$      7,275</u>
Total Assets	<u><u>\$      7,275</u></u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>\$      7,275</u>
Total Liabilities	<u><u>\$      7,275</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Scott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Scott County Public Properties Corporation**

The Scott County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Scott County Fiscal Court is financially accountable for the component unit as part of the reporting entity and its financial activity is blended with that of the fiscal court.

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Scott County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Scott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Scott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.



**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - This fund is for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major governmental funds: Local Government Economic Assistance Fund, McCracken Trust Fund, and the Hospital Fund. The Local Government Economic Assistance Fund and the Hospital Fund are Special Revenue Funds and the McCracken Trust Fund is a Permanent Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements of Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from prisoners upon arrival at the Detention Center and remitted to the prisoners upon release.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20-25
Buildings and Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-12
Infrastructure	\$ 5,000	20-40

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

The McCracken Trust Fund was established by the will of John C. McCracken in 1835. The will imposed that the fund be held in perpetuity and that one-third of the proceeds and profits be used to increase and augment the principal. The remaining two-thirds of the proceeds and profits were to be used at the Fiscal Court's discretion to alleviate the misfortunes and bettering the conditions of poor and indigent persons.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Fund, and the Jail Canteen Inmate Agency Fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund and the Jail Canteen Inmate Agency Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Scott County Fiscal Court: Georgetown-Scott County Tourism and the Scott County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Scott County Fiscal Court: Park and Recreation and Planning and Zoning.

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 2. Deposits**

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2006, \$41,562 of public funds were exposed to custodial risk at one of the County's depository institutions. As of June 30, 2007, \$111,140 of public funds were exposed to custodial risk at one of the County's depository institutions.

- Uninsured and Unsecured - August 31, 2006      \$ 41,562
- Uninsured and Unsecured - June 30, 2007      \$111,140

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 6,706,712	\$	\$	\$ 6,706,712
Total Capital Assets Not Being Depreciated	6,706,712			6,706,712
Capital Assets, Being Depreciated:				
Buildings	22,869,106	19,686		22,888,792
Other Equipment	4,183,191	140,998	(18,000)	4,306,189
Vehicles and Equipment	5,360,643	621,889	(493,559)	5,488,973
Infrastructure	21,333,900	1,370,447		22,704,347
Total Capital Assets Being Depreciated	53,746,840	2,153,020	(511,559)	55,388,301
Less Accumulated Depreciation For:				
Buildings	(4,605,406)	(356,252)		(4,961,658)
Other Equipment	(1,749,846)	(261,509)	14,000	(1,997,355)
Vehicles and Equipment	(2,702,621)	(390,861)	443,963	(2,649,519)
Infrastructure	(8,379,179)	(1,045,255)		(9,424,434)
Total Accumulated Depreciation	(17,437,052)	(2,053,877)	457,963	(19,032,966)
Total Capital Assets, Being Depreciated, Net	36,309,788	99,143	(53,596)	36,355,335
Governmental Activities Capital Assets, Net	<u>\$ 43,016,500</u>	<u>\$ 99,143</u>	<u>\$ (53,596)</u>	<u>\$ 43,062,047</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 174,905
Protection to Persons and Property	597,444
General Health and Sanitation	25,913
Recreation and Culture	71,139
Roads, Including Depreciation of General Infrastructure Assets	<u>1,184,476</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,053,877</u>

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 4. Long-term Debt - Public Properties Corporation**

In September 1997, the Scott County Public Properties Corporation Fund issued \$3,415,000 of revenue refunding bonds, series 1997. The bonds were issued for advance refunding of the outstanding 1990 bonds maturing on and after January 1, 2002 to 2010. Interest is payable semi-annually on January 1 and July 1 of each year, and principal payments are due on January 1 of each year in the amounts stated below. The total principal outstanding was \$1,245,000 as of June 30, 2007.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 395,000	58,733
2009	415,000	40,168
2010	435,000	20,663
Totals	<u>\$ 1,245,000</u>	<u>\$ 119,564</u>

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 1,625,000	\$	\$ 380,000	\$ 1,245,000	\$ 395,000
Governmental Activities					
Long-term Liabilities	<u>\$ 1,625,000</u>	<u>\$ 0</u>	<u>\$ 380,000</u>	<u>\$ 1,245,000</u>	<u>\$ 395,000</u>

**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 5. Employee Retirement System**

The Fiscal Court elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The County's contribution rate for hazardous employees was 28.21 percent. The County's required contribution rate to CERS for FYE June 30, 2005, 2006, and 2007 were \$931,455, \$1,216,485, and \$1,893,237, respectively. These payments represent 100% of the required contributions for each fiscal year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 6. Deferred Compensation**

The Scott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 7. Insurance**

For the fiscal year ended June 30, 2007, Scott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



**SCOTT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 8. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

**Note 9. Prior Period Adjustments - Governmental Activities**

The fiscal year ended June 30, 2006 net assets were restated due to capital asset adjustments as follows:

Ending Balance Fiscal Year Ended June 30, 2006	\$	64,433,407
Adjustments are as follows:		
Buildings		1,524,629
Other Equipment, net		122,505
Infrastructure, net		<u>56,565</u>
Restated Balance June 30, 2006	\$	<u><u>66,137,106</u></u>

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**SCOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**



**SCOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 14,904,000	\$ 14,904,000	\$ 19,393,991	\$ 4,489,991
Excess Fees	700,000	700,000	913,216	213,216
Licenses and Permits	323,000	323,000	404,626	81,626
Intergovernmental Revenue	1,319,300	1,319,300	1,916,020	596,720
Charges for Services	380,000	380,000	601,230	221,230
Miscellaneous	937,100	937,100	2,528,493	1,591,393
Interest	420,000	420,000	976,469	556,469
Total Revenues	18,983,400	18,983,400	26,734,045	7,750,645
<b>EXPENDITURES</b>				
General Government	6,442,395	6,442,395	5,507,738	934,657
Protection to Persons and Property	6,658,274	6,658,274	6,652,565	5,709
General Health and Sanitation	701,956	701,956	682,074	19,882
Social Services	465,270	465,270	445,970	19,300
Recreation and Culture	3,100,110	3,100,110	2,628,163	471,947
Debt Service	429,000	429,000		429,000
Capital Projects	3,300,000	3,300,000	1,699,950	1,600,050
Administration	7,307,131	7,307,131	5,382,102	1,925,029
Total Expenditures	28,404,136	28,404,136	22,998,562	5,405,574
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(9,420,736)	(9,420,736)	3,735,483	13,156,219
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(6,150,264)	(6,150,264)	(4,018,725)	2,131,539
Total Other Financing Sources (Uses)	(6,150,264)	(6,150,264)	(4,018,725)	2,131,539
Net Changes in Fund Balance	(15,571,000)	(15,571,000)	(283,242)	15,287,758
Fund Balance - Beginning	15,571,000	15,571,000	23,920,431	8,349,431
Fund Balance - Ending	\$ 0	\$ 0	\$ 23,637,189	\$ 23,637,189

**SCOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 723,050	\$ 723,050	\$ 1,069,389	\$ 346,339
Miscellaneous	2,200	2,200	23,426	21,226
Interest	1,000	1,000	3,891	2,891
Total Revenues	<u>726,250</u>	<u>726,250</u>	<u>1,096,706</u>	<u>370,456</u>
<b>EXPENDITURES</b>				
Roads	3,545,700	3,545,700	2,266,809	1,278,891
Capital Projects	150,000	150,000	9,017	140,983
Administration	791,000	791,000	550,699	240,301
Total Expenditures	<u>4,486,700</u>	<u>4,486,700</u>	<u>2,826,525</u>	<u>1,660,175</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,760,450)</u>	<u>(3,760,450)</u>	<u>(1,729,819)</u>	<u>2,030,631</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>3,760,450</u>	<u>3,760,450</u>	<u>1,800,000</u>	<u>(1,960,450)</u>
Total Other Financing Sources (Uses)	<u>3,760,450</u>	<u>3,760,450</u>	<u>1,800,000</u>	<u>(1,960,450)</u>
Net Changes in Fund Balance			70,181	70,181
Fund Balance - Beginning			<u>106,050</u>	<u>106,050</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 176,231</u>	<u>\$ 176,231</u>

**SCOTT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 240,000	\$ 240,000	\$ 367,512	\$ 127,512
Charges for Services	22,000	22,000	40,854	18,854
Miscellaneous	17,100	17,100	24,269	7,169
Total Revenues	279,100	279,100	432,635	153,535
EXPENDITURES				
Protection to Persons and Property	1,838,414	1,850,511	1,560,062	290,449
Debt Service	40,000	70,000		70,000
Administration	790,500	748,403	666,515	81,888
Total Expenditures	2,668,914	2,668,914	2,226,577	442,337
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,389,814)	(2,389,814)	(1,793,942)	595,872
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,389,814	2,389,814	1,800,000	(589,814)
Transfers To Other Funds			(67,662)	(67,662)
Total Other Financing Sources (Uses)	2,389,814	2,389,814	1,732,338	(657,476)
Net Changes in Fund Balance			(61,604)	(61,604)
Fund Balance - Beginning			81,203	81,203
Fund Balance - Ending	\$ 0	\$ 0	\$ 19,599	\$ 19,599

**SCOTT COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2007**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.



**SCOTT COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2007**



**SCOTT COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2007**

	<b>LGEA Fund</b>	<b>McCracken Trust Fund</b>	<b>Hospital Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 131,794	\$ 87,165	\$ 383,232	\$ 602,191
Total Assets	<u>\$ 131,794</u>	<u>\$ 87,165</u>	<u>\$ 383,232</u>	<u>\$ 602,191</u>
<b>FUND BALANCES</b>				
Reserved For:				
Permanent Fund-Indigent Care	\$	\$ 84,534	\$	\$ 84,534
Unreserved:				
Permanent Fund		2,631		2,631
Special Revenue Funds	<u>131,794</u>	<u></u>	<u>383,232</u>	<u>515,026</u>
Total Fund Balances	<u>\$ 131,794</u>	<u>\$ 87,165</u>	<u>\$ 383,232</u>	<u>\$ 602,191</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2007**



**SCOTT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2007**

	<b>LGEA Fund</b>	<b>McCracken Trust Fund</b>	<b>Hospital Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Miscellaneous	\$ 167,791	\$	\$	\$ 167,791
Interest	1,641	3,335	15,190	20,166
Total Revenues	<u>169,432</u>	<u>3,335</u>	<u>15,190</u>	<u>187,957</u>
<b>EXPENDITURES</b>				
Social Services		716	26,153	26,869
Roads	196,819			196,819
Total Expenditures	<u>196,819</u>	<u>716</u>	<u>26,153</u>	<u>223,688</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(27,387)</u>	<u>2,619</u>	<u>(10,963)</u>	<u>(35,731)</u>
Net Change in Fund Balances	(27,387)	2,619	(10,963)	(35,731)
Fund Balances - Beginning	159,181	84,546	394,195	637,922
Fund Balances - Ending	<u>\$ 131,794</u>	<u>\$ 87,165</u>	<u>\$ 383,232</u>	<u>\$ 602,191</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable George Lusby, Scott County Judge/Executive  
Members of the Scott County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 30, 2008. Scott County prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Scott County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scott County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Scott County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- Scott County Has A Lack Of An Adequate Segregation Of Duties



Report on Internal Control Over Financial Reporting and On  
Compliance and Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Scott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Scott County's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 30, 2008

**SCOTT COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2007**



**SCOTT COUNTY  
COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2007**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS**

**Scott County Has A Lack Of An Adequate Segregation Of Duties**

During our audit, we noted that some of the County Treasurer's duties include the following:

- Accounting software package administrator, and has the ability to add, modify, or delete any transaction. No one monitors adjustments and transfers. There is no subsequent report showing what the Treasurer has entered or adjusted. All of the journal vouchers and adjustments are prepared and entered by the Treasurer.
- The Treasurer prepares bank reconciliations from the bank statements that come into the Executive Secretary or the Secretary/Bookkeeper (Judge's office). Neither open them, but instead take them to the County Treasurer. No one reviews the bank reconciliation.
- The Treasurer makes transfers among bank accounts. No one reviews these transfers.
- The Treasurer usually deposits the checks received into the County's bank accounts. The Payroll Officer deposits checks when the Treasurer is unavailable.
- The Treasurer enters the information necessary to process the payroll into the computer system, prepares the documentation to transfer monies from the County's funds into the payroll revolving account, posts the payroll expenditures to the appropriations ledger, reconciles the payroll bank account, handles the direct deposit payments, and reconciles the payroll direct deposit details to the payroll bank account.

Based on the discussion above, it appears the Treasurer has too much control and access and the County lacks adequate segregation of duties over various functions, as described above. We recommend the County improve internal controls, by moving the bank reconciliation duties to someone not authorized to sign checks. We suggest this person be the Secretary/bookkeeper. After the bank reconciliations are prepared, they could be reviewed by the Executive Secretary or the Deputy Judge/Executive. Such a shift would both improve internal control, as well as enhance work flow. Segregation of duties or implementation of compensating controls, when areas are controlled by one person, is essential for providing protection from asset misappropriation and/or erroneous financial reporting.

County Judge/Executive's and County Treasurer's Response:

*As soon as a person can be trained, we plan to follow the recommendation.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**SCOTT COUNTY FISCAL COURT**


**For The Fiscal Year Ended  
June 30, 2007**




CERTIFICATON OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
SCOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2007

The Scott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
Judge Executive

  
\_\_\_\_\_  
Name  
County Treasurer

